Investment Office

Annual Plan:

Fiscal Year 2005-2006

- •Administrative and Operational Services
 - Supplemental Savings Programs

December 12, 2005

Investment Committee Meeting



Administrative and Operational Services

Annual Plan Fiscal Year 2005-06



- Administrative Services and Operations Division has 31 employees
- ➤ Provides for CalPERS Investment Office infrastructure administrative services, operations, and policy
- Administrative services include budget, contracts, personnel, technology, audits, compliance, and other business issues
- > Operations includes:
 - "Back Office" Trade Settlement
 - "Middle Office" Performance Monitoring
 - Oversight of master custody contract
- Policy Subcommittee
- > State and Federal legislative issues affecting investments
- > Diversity



- > Established Investment Officer III Classification
- ➤ Completed 9 RFP processes with 35 resulting contracts (plus several stand-alone contracts)
- ➤ Completed a successful RFP and Interview Process for Board's General Pension Consultant
- ➤ Led fund transition from monthly to daily valuation at no additional cost to CalPERS
- Successfully finalized all internally-managed trade activity for CalPERS approximately 70,000 trades totaling over \$600 billion, a 21% increase over the previous year

- ➤ Provided applications and administrative support for new Internal International Equity and Internal Enhanced Index Portfolios, as well as all existing investment programs
- ➤ Streamlined the monthly CIO reports in the Investment Committee binder
- Twenty new or amended investment policies adopted by Investment Committee, as well as addition of a web-based glossary of terms
- ➤ Provided CalPERS information to approximately 50 major surveys, including the Cost Effectiveness Measurement Survey

Annual Plan for 2005-06

OBJECTIVE

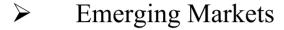
Expand and improve Investment Office operational, technological, and administrative infrastructure to support portfolio and investment management strategies

Strategies

- ➤ Effectively transition from monthly to daily performance reporting to facilitate enhanced portfolio management and risk assessment
- Ensure state of art custody platform and relationship by conducting RFP process to select master custodian and (if appropriate) managing transition to new custodian

- Establish a structure within the Investment Office to effectively manage the relationship between investments and the system/ application technology necessary to manage these investments
- Continue to partner with Human Resources on select classification and compensation issues designed to enhance recruitment and retention of Investment Office staff
- ➤ Develop plan for methodical, ongoing review of investment policies, including review of compliance issues, and complete first phase of review





- California Initiative Program Established in 2001, had approximately \$475 million committed as of 6/30/05 to ten private equity firms focused on investment opportunities in California underserved markets
- California Urban Real Estate (CURE) Program –
 Established in 1997, over \$760 million was invested as of June 30, 2005; the Program emphasizes urban redevelopment, especially residential and mixed use, with a California focus



- The Manager Development Program (MDP), implemented in May 2000 to further investment in small and emerging firms, has as of June 30, 2005, \$2.8 billion allocated among 14 firms, through two strategic partners
- The Manager Development Program II (MDP) established a spring fed pool in June 2005, with five advisors appointed to the pool; funding is expected to occur in the first quarter of 2006
- Investment Office staff continues to conduct substantial outreach efforts and to increase its transactional activity with emerging brokerage firms in both the fixed income and equity programs

Outreach and Reporting

- CalPERS engaged in proactive outreach through participation in conferences, as well as on boards and advisory committees, by Trustees, Executive Staff, and Investment Office professionals
- Developed database to enable Investment Office tracking and reporting of diversity within its programs
- CalPERS submitted two reports to the Legislature on its investment efforts related to diversity; copies of these reports have been provided, concurrent with submission to the Legislature, to the Investment Committee

Diversity Plan for 2005-06

OBJECTIVE

Develop and implement an investment approach, consistent with fiduciary principles, that seeks to take advantage of all skills and ideas in the marketplace

Strategies

- ➤ Design and conduct Board Workshop on diversity in the financial industry (November 2005) Completed
- ➤ Issue RFP and retain consultant(s) to review CalPERS policies and programs, identify best practices, and assist in the development and implementation of strategies best suited to CalPERS needs pool to be established in Spring 2006

- ➤ Complete comprehensive emerging financial service provider reference guide/database scheduled for completion in August 2006
- ➤ Sponsor conference in Spring 2006, to provide educational as well as networking opportunities
 - Take leadership role in defining diversity as a business strategy
 - Co-host with CalSTRS
- ➤ Continue and expand upon ongoing activities and programs (outlined in plans for individual asset classes)

Supplemental Savings Programs

Annual Plan Fiscal Year 2005-06



Supplemental Savings Programs 2004-05 Accomplishments

- SSPD administers three defined contribution programs:
 - The CalPERS 457 Program
 - The Peace Officers' and Firefighters' Defined Contribution Program
 - The Supplemental Contributions Program
- SSPD also acts as a liaison for CalPERS' management of an investment option for DPA's Savings Plus Program:
 - S&P 500 Index Fund



- ➤ 457 Program conducted over 750 group and 5,500 individual meetings with PA and School employees
- ➤ 457 Program assets increased by 19.3%
- ➤ 12.2% growth in participants in the 457 Program
- ➤ 35 new agencies adopted the 457 Program for a 7.2% increase
- ➤ Successfully retained our largest agency, the city of Anaheim, which conducted an RFP process for its 457 Program
- ➤ Peace Officers' and Firefighters' Defined Contribution Plan assets increased by 27.4%
- The after-tax Supplemental Contributions Program increased assets by approximately 1% in spite of substantial transfers out by members to purchase additional service credit



OBJECTIVE

Enhance CalPERS Supplemental Savings Programs 457 Plan by expanding and improving available investment options, operations and support

Strategies

- ➤ Successfully transition and integrate the program into Investment Office
- Conduct RFP process to select third party administrator for program and (if applicable) transition plan assets / participants to new administrator

- Review current investment line-up for 457 plan, and identify opportunities to supplement or replace existing funds with CalPERS managed funds
 - Capitalize on existing strengths and expertise, such as fixed income, to provide low cost, high performing funds to participants
 - Identify internal investments appropriate for participantdirected investing
 - Incorporate at least one internal investment into 457 plan fund line-up by June 30, 2005
- Enhance marketing and promotional efforts by maximizing CalPERS "branding" in brochures, publications, enrollment, educational and marketing materials



- Expand PA and school employee retirement education
 - In association with Member Services Division, broaden the scope of retirement education information provided on the annual CalPERS member statement
 - In association with Member Services Division's Member Education Unit, sponsor joint Deferred/Compensation
 Financial Planning Seminars for the employees of local public agencies participating in the CalPERS 457 program